

# Financial Planning Estate *and* Planning

*Presented by*

*Charles T. Strano*

*856-478-0800*

*cstrano@fscorp.com*



*registered representative FSC Securities Corporation, NASD, me*

- 
- 
- 

*Now is not the time to think of what you do not have; think of what you can do with what there is.*

*-Ernest*

*Hemingway*

# What is Financial Planning?

- *A detailed, step-by-step business plan for your financial life*
- *The identification of your needs, goals, desires, and feelings about money and your financial future*
- *A road map that shows you where you are and where you are going*
- *The protection of your valuable assets through risk management*

# What Are The Issues?

- *Survivor needs*
- *Disability*
- *College tuition*
- *Taxes*
- *Retirement*
- *Long term health care*
- *Investments*
- *Probate court costs and estate taxes*
- *Disabled child(ren)*
- *Guardianship*
- *Care giving*
- *Distribution of assets*
- *Debts*

# Controlling Debt

- *Pay cash for purchases*
- *Use a debit card rather than a credit card*
- *Close accounts you don't use or need*
- *Pay as much as possible to reduce your highest interest rate credit card balances each month*
- *When an account is paid off, use the money you were paying each month to reduce another account or to put into savings*
- *Try to avoid selling investments to pay your debts*
- *Take advantage of credit counseling, if you need it.*

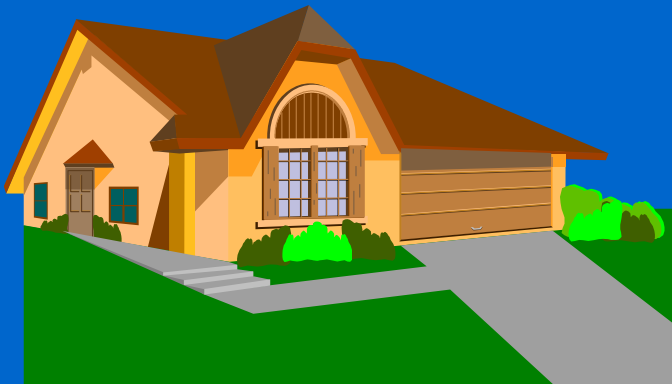
# Keeping Track of Debt

Interest %	Lender	Amount	Action
18 %	Visa	\$2000	min pmt
19 %	M/C	\$3000	min pmt
20 %	KMart	\$4000	EVERY penny!

Which credit card COSTS you the most money?  
Which credit card do you AVOID using?

Revise this list monthly and keep it with your checkbook!

# Good Debt and Bad Debt



Interest may be deductible



Interest is not deductible

# Nine Steps to Successful Retirement

- *Decide to plan for a successful retirement*
- *Discuss your decision with your family*
- *Identify your goals*
- *Develop a schedule*
- *Explore your current financial situation*
- *Educate yourself about your finances and money management in general*
- *Learn about investing*
- *Learn about tax laws that apply to you*
- *Work with a professional to develop your plan*



# Personal Financial Planning

helps you answer these questions

- *How much capital will I need to produce a comfortable income?*
- *What effect will inflation have on my savings and investments?*
- *What investments will I need to provide purchasing power throughout retirement?*
- *Is my portfolio properly diversified?*
- *What can I do to reduce my current income tax liability?*
- *What is the status of my life insurance and disability income policies?*
- *What effect will potential long-term health care costs have on my estate?*
- *How can I plan my my estate to reduce costs and ensure that my assets are distributed according to my wishes?*
- *How long will I need retirement capital?*

# Top 20 Stressful Events

1. *Death of a child*
2. *Death of a spouse*
3. *Divorce*
4. *Marital separation*
5. *Jail term*
6. *Death of a family member*
7. *Personal injury or illness*
8. *Marriage*
9. *Being fired*
10. *Marital reconciliation*

11. **RETIREMENT**
12. *Family health problems*
13. *Pregnancy*
14. *Sexual difficulties*
15. *Gain of new family member*
16. *Business readjustment*
17. *Change in financial state*
18. *Death of close friend*
19. *Change to different line of work*
20. *Marital difficulties*

# Your Schedule

(After Retirement)

<i>Hour</i>	<i>Sun</i>	<i>Mon</i>	<i>Tue</i>	<i>Wed</i>	<i>Thu</i>	<i>Fri</i>	<i>Sat</i>
<i>8 am</i>							
<i>9 am</i>							
<i>10 am</i>							
<i>11 am</i>							
<i>12</i>							
<i>1 pm</i>							
<i>2 pm</i>							
<i>3 pm</i>							
<i>4 pm</i>							
<i>5 pm</i>							
<i>6 pm</i>							
<i>7 pm</i>							

# Practice Retirement

- *Live on the income you will receive during retirement.*
- *Involve yourself in the activities you think you'll pursue after you retire.*
- *Plan a weekly calendar to see how your days will be spent. Figure out how to use your free time to your satisfaction.*
- *Look for and develop friendships outside of your work environment.*
- *Review your diet and your exercise levels. Work with your doctor to set goals for improvement in this area.*
- *Be sure to do your planning with your spouse or significant other.*

# Relocating After Retiring?

- *Will your new home state tax your federal pension?*
- *Is the cost of living acceptable?*
- *What will your property taxes be?*
- *How close will you be to medical care? How do costs compare?*
- *Is the climate endurable all year?*
- *How far away from your loved ones will you be?*
- *Will you miss your grandchildren?*

# The Convenient Time ...Does It Ever Come?

*We're 25 ...we don't make enough to save yet... we want some fun while we're young... we've got lots of time*

*We're 35 ... our mortgage payments are so high... when the children are older, we'll begin to invest... we can't put a penny aside now*

*We're 45 ... the kids are in school and it costs so much... now seems to be the most expensive time in our lives*

*We're 55 ... we should invest, but we aren't getting the breaks we need ... it's tough to get a better job at our age... we need a lucky break*

*We're 65 ... who us? ... investing is a good idea, but on Social Security? It's too late now to do what we should have done years ago*

*Plan to Succeed Today!*

# The Cost of Procrastination

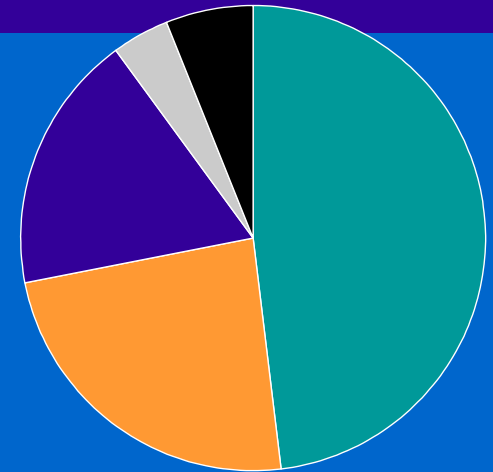
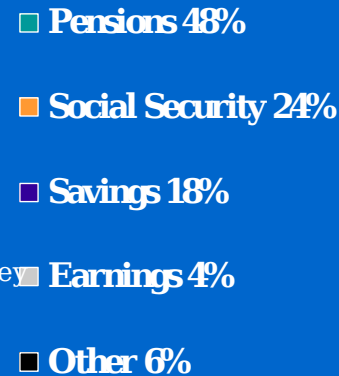
What does it take to have \$1 million in your retirement account by the time you are 65?

<b>Age</b>	<b>Monthly</b>	<b>Annually</b>	<b>Years to 65</b>
25	\$157	\$2,054	40
30	\$261	\$3,354	35
35	\$439	\$5,527	25
40	\$747	\$9,244	25
45	\$1,306	\$15,872	20
50	\$2,393	\$28,613	15
55	\$4,851	\$57,041	10
60	\$12,807	\$148,907	5

# Retirement Income: Perception vs. Reality

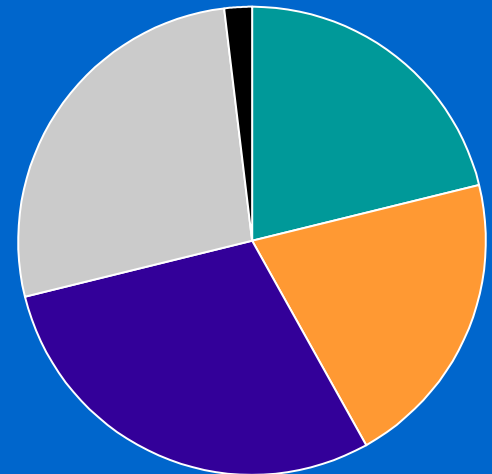
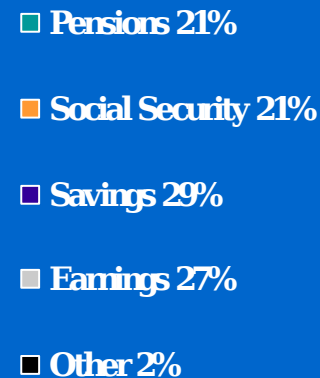
*Pre-retirees (age 45 to 65) believe this will be their monthly income picture.*

Source: The Sixth Annual Merrill Lynch Retirement Survey



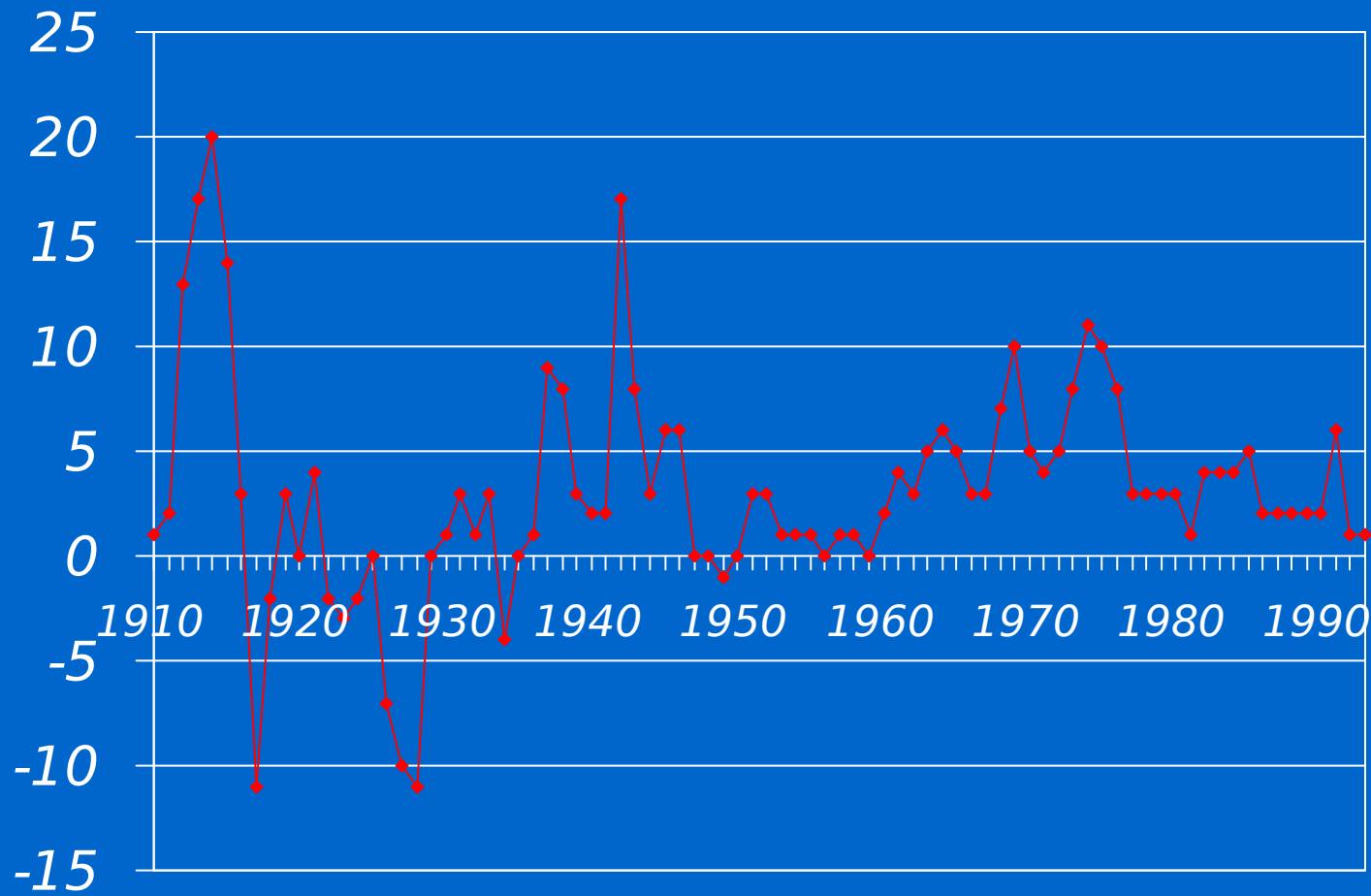
*At retirement, they found this to be their reality.*

Source: U.S. Department of Health and Human Services





# Inflation Since 1910



# Consumer Prices: What's Happened Since 1970



In 1970

6¢

In 1980

15¢

In 2001

34¢



\$3,400

\$6,910

\$25,000



\$25,600

\$64,000

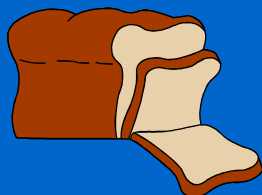
\$138,000



\$7.50

\$22

\$65




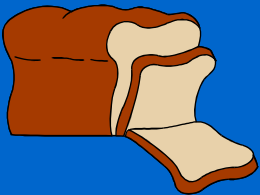


23¢

43¢

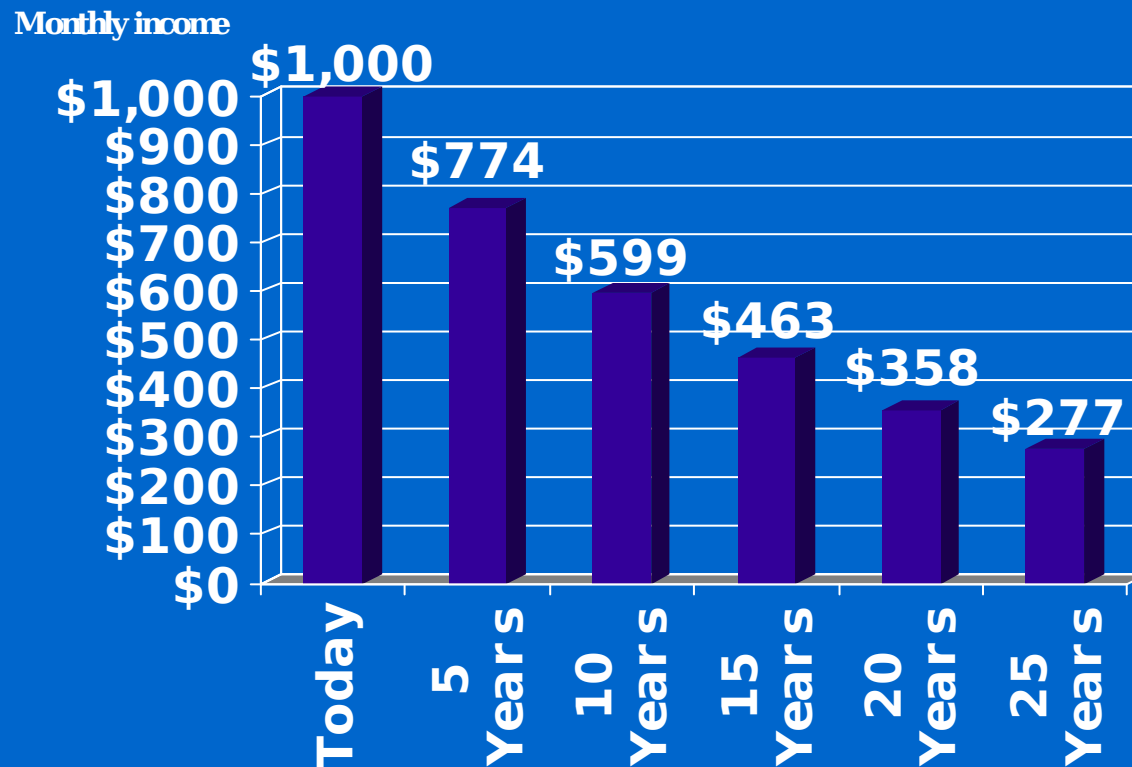
\$1.79

# Consumer Prices: What Will Happen by 2015?

	In 2001	In 2015
	34¢	\$1.33
	\$25,000	\$83,000
	\$138,000	\$500,000
	\$65	\$225
	\$1.79	\$2.15

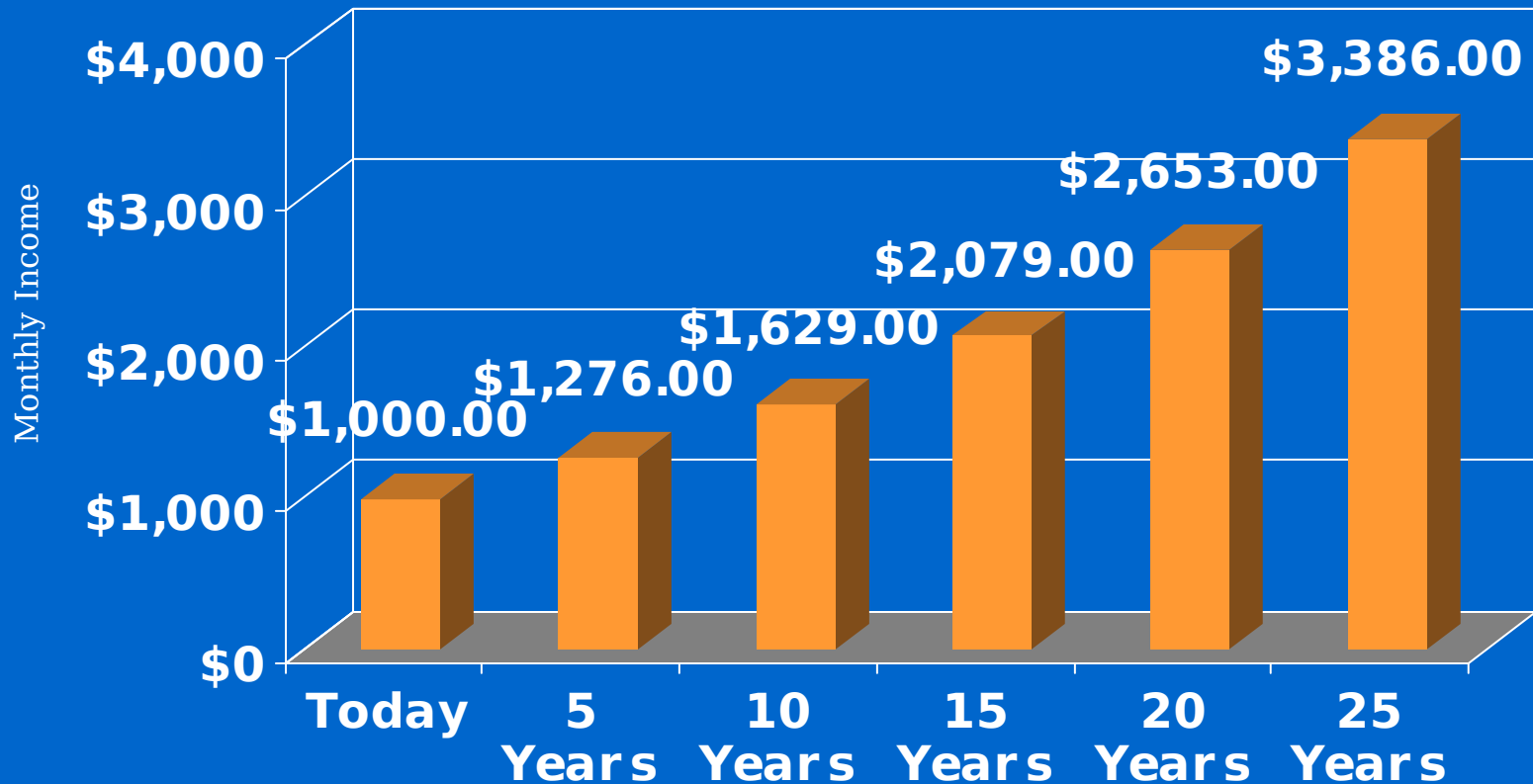
# Future Purchasing Power

of \$1,000 monthly income, in today's dollars, at 5% inflation



# The Impact of Inflation

on your monthly retirement income, at 5% inflation



- 
- 
- 

# Who is Your Business Partner?

*Uncle Sam!*

*Tax Freedom Day – End of May!*

# Double BANG of Income Taxes and Inflation

<i>Investment</i>	<i>\$10,000</i>
<i>Income (5% interest)</i>	<i>\$500</i>
<i>Federal Income Tax (28%)</i>	<i>-\$140</i>
<hr/>	
<i>Net After Taxes</i>	<i>\$360</i>
<i>Inflation (based on 5%)</i>	<i>-\$500</i>
<hr/>	
<i>Net Purchasing Power</i>	<i>-\$140</i>
<i>REAL Rate of Return</i>	<i>-1.4%</i>

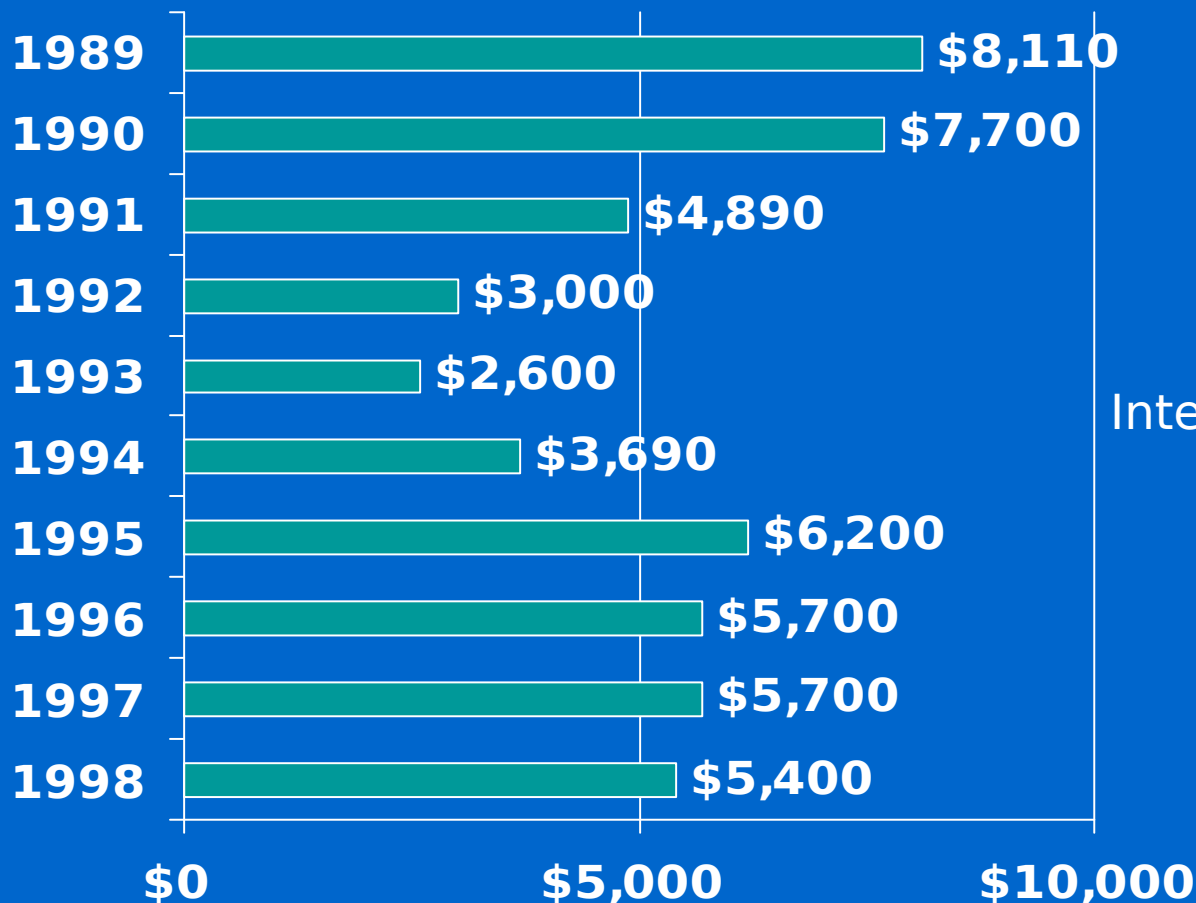
# The Challenge of Earning a “Real” 2 Percent

If Inflation is This Much	You Must Earn This Much to Realize a “Real” 2% Gain		
	15%	27%	35%
3%	5.9%	6.9%	7.8%
4%	7.1%	8.3%	9.4%
5%	8.2%	9.7%	10.9%
6%	9.4%	11.1%	12.5%
7%	10.6%	12.5%	14.1%
8%	11.8%	13.9%	15.6%
9%	12.9%	15.3%	17.2%



# How Safe Is Your Income?

Annual Income from \$100,000 Investment in 6 month CDs



Interest Rate Risk

# How Long Will Your Money Last?

Rate of Withdrawal	Expected Rate of Return										
	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
6%	37	*	*	*	*	*	*	*	*	*	*
7%	25	33	*	*	*	*	*	*	*	*	*
8%	20	23	30	*	*	*	*	*	*	*	*
9%	16	18	22	29	*	*	*	*	*	*	*
10%	14	15	17	20	27	*	*	*	*	*	*
11%	12	14	15	17	20	25	*	*	*	*	*
12%	11	12	13	14	16	19	24	*	*	*	*
13%	10	11	11	12	14	15	18	23	*	*	*
14%	9	10	10	11	12	13	15	17	22	*	*
15%	8	9	9	10	11	11	13	14	16	21	*
16%	8	8	9	9	10	10	11	12	14	16	20
17%	7	7	8	8	9	9	10	11	12	13	15
18%	7	7	7	8	8	9	9	10	10	11	13
19%	6	7	7	7	7	8	8	9	9	10	11
20%	6	6	6	7	7	7	8	8	9	9	10

\*Capital will never be depleted

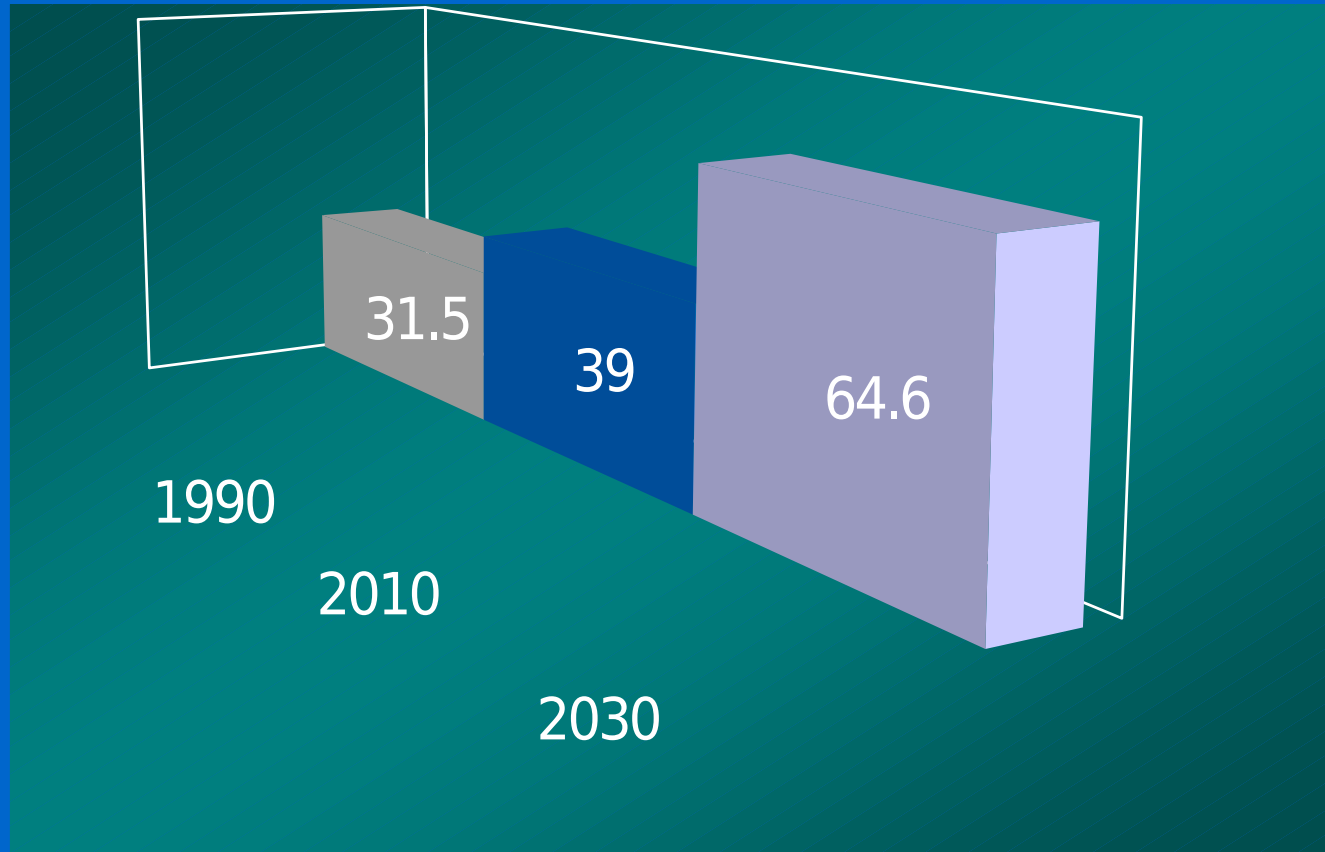
# When Will YOU Be Eligible?

Your year of birth determines when you are eligible for 100% benefits  
and what percentage you will receive, starting at age 62.

<i>Before 1938</i>	<i>65/0</i>	<i>80%</i>
<i>1938</i>	<i>65/2</i>	<i>79.2%</i>
<i>1939</i>	<i>65/4</i>	<i>78.3%</i>
<i>1940</i>	<i>65/6</i>	<i>77.5%</i>
<i>1941</i>	<i>65/8</i>	<i>76.7%</i>
<i>1942</i>	<i>65/10</i>	<i>75.8%</i>
<i>1943-1954</i>	<i>66/0</i>	<i>75%</i>
<i>1955</i>	<i>66/2</i>	<i>74.2%</i>
<i>1956</i>	<i>66/4</i>	<i>73.3%</i>
<i>1957</i>	<i>66/6</i>	<i>72.5%</i>
<i>1958</i>	<i>66/8</i>	<i>71.7%</i>
<i>1959</i>	<i>66/10</i>	<i>70.8%</i>

# The Graying of America

Number of people in age 65 or older in the U.S.



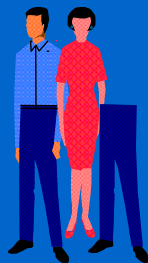
# Working For Retirees



In 1945, there were  
42 workers for every  
1 retiree



By 1984, that  
number dropped to  
3.3 workers for  
every 1 retiree



By 2020, there will  
be only 2.4 workers  
for every 1 retiree

- 
- 
- 

The difference between death and taxes is that death doesn't get worse every time Congress meets.

— Anonymous

# Steps to Goal Setting

- *Dream*
- *Write down your dreams*
  - *Be specific*
  - *Quantify them*
  - *Establish a time frame*
- *Organize your information*
  - *Identify priorities*
  - *Determine courses of action*
  - *Break big goals down into smaller goals*
- *Act on your plan*
  - *Take the first step, then the next, then the next*
  - *Monitor your progress*
  - *Adjust your course when needed*
- *Celebrate accomplishing your goals*

# Cash Reserve Investment Vehicles

- *Checking Accounts*
- *Savings*
- *Money Market (Daily Interest) Accounts*
- *Certificates of Deposit*
- *Money Market Funds*
- *Savings Bonds*



# Savings Bonds Final Maturity

- *Series E*
  - *Purchase dates: May 1941 - November 1965*
  - *40 year final maturity*
- *Series E/EE*
  - *Purchase dates: December 1965 - present*
  - *30 year final maturity*
- *Series HH*
  - *Sold in \$500 increments through conversion of E and EE bonds*
  - *Provide semi-annual interest payments*

# Treasury Bonds

- *Issued by the U.S. government to help finance the deficit*
- *Fixed amount of interest*
- *Specific maturity date*
- *Treasury bonds are backed by the U.S. government, so there's no risk of default*
- *Treasury bonds are free from state income tax*

# Municipal Bonds Tax-Free Income

- *Earned interest is exempt from federal income tax*
  - *It may also be free of state and local tax, depending on your state of residence.*
- *Gain on purchase of a bond can be taxable (federal)*
- *Purchased three ways*
  - *Individual bond*
  - *Unit of specific bonds*
  - *Mutual funds*

# Tax Free vs. Taxable Income

This table shows the rate of return you must earn from taxable yields to equal tax-exempt yields.

A Tax - Exempt Yield of  
Tax Bracket      Tax Exempt  
Yield 5%

15.0%	5.75%
27.0%	6.35%
30.0%	6.50%
35.0%	6.80%
38.6%	7.00%

# Corporate Bonds

- *Issued by corporations as a way to borrow money from investors, rather than banks*
- *Pay a fixed amount of interest (known as fixed income securities (as are government and municipal bonds))*
- *Have a specific maturity date, at which time the principal is due*
- *Bonds are used for*
  - Secured real estate
  - Equipment
  - Raw material
  - Debentures

# Corporate Bond Ratings

- *Corporate bonds are rated for quality and financial strength of the corporation*
- *Higher quality = Lower yield*
- *Lower quality = Higher yield*
  - *AAA Corporate Bond = 5% interest*
  - *BBB Corporate Bond = 7% interest*
  - *B Corporate Bond = 8% interest*

# Benchmarks

- *Dow Jones Industrial Average*
  - *Average of 30 blue chip stocks*
- *Standard & Poor's 500 (TSP-C FUND)*
  - *Index of 500 largest stocks, mostly traded on New York Stock Exchange and American Stock Exchange*
- *Russell 2000*
  - *Technology related corporate stocks*
- *Wilshire 4500 Equity Index (TSP-S FUND)*
  - *Broadest domestic average, includes stocks on the New York Stock Exchange, the American Stock Exchange, and the over-the-counter market*
  - *501-5000 of the largest public companies in America*
- *Barclay's EAFE Index (TSP-I FUND)*
  - *Market value weighted international index that includes tocks traded on 16 exchanges in Europe, Australia, and the Far East*

# Mutual Funds

Many people put their money together and the mutual fund purchases many different, individual stocks. Your risk is spread among many individual stocks.



YAHOO!

IBM



Pfizer

CDNOW



amazon.com

DUPONT

SONY

Microsoft



THE HOME DEPOT

THE SPORTS AUTHORITY

VICTORIA'S SECRET

GM

COMPAQ

All logos copyright of their respective corporations.



# Mutual Funds

- *Professional Benefits*
  - *Experienced selection*
  - *Diversification*
  - *Continuous management*
  - *Liquidity*
- *Money-making Benefits*
  - *Dividends*
  - *Capital gains*
  - *Price/share (NAV)*

# Mutual Fund Types

## Money Market Funds

## Bond Funds

## Stock Funds

US Government Securities Funds

Balanced Funds

Municipal Bond Funds

Equity Income Funds

Corporate Bond Funds

Growth and Income Funds

High-yield Corporate Bond Funds

Growth Funds

Global Income Funds

Aggressive Growth Funds

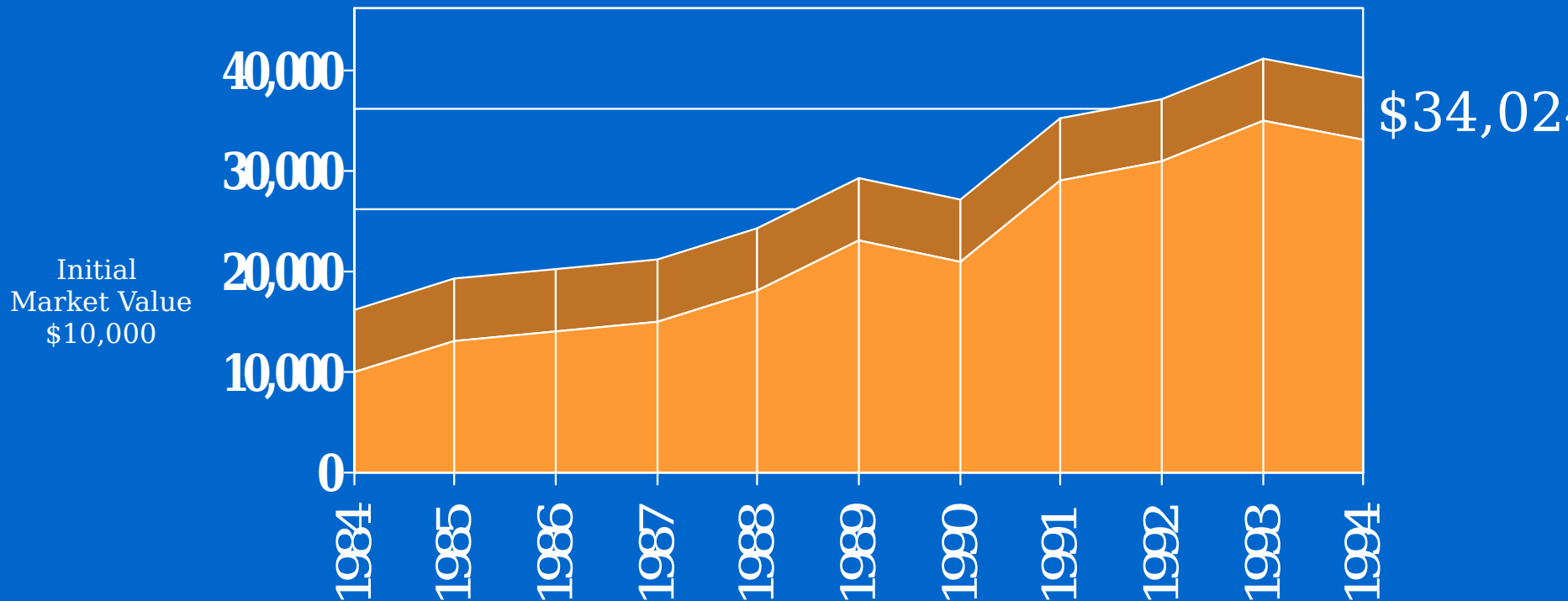
International Equity Funds

Global Equity Funds

Index Funds

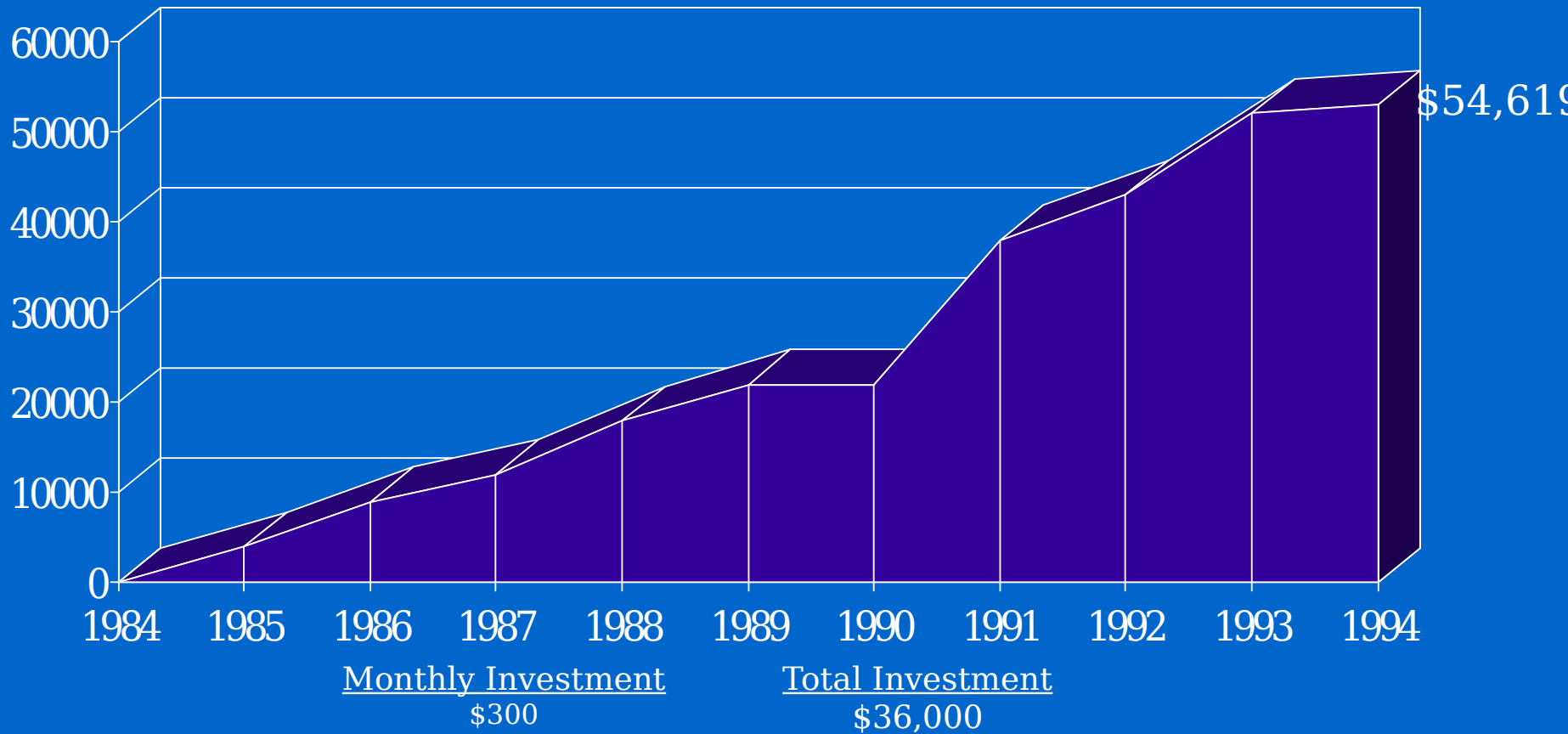
Sector Funds

# Average Growth Fund Performance



\$10,000 Hypothetical Investment (For the 10 - year period ending 12/31/94)

# Dollar Cost Averaging



Ending Value: \$54,619 (For 10-Year Period Ending December 1994)

*The results shown above represent the composite performance of all balanced funds with a minimum 10-year track record as monitored by CDA/Wiesenberger since 1984 and are not intended to relate to a specific fund. Past performance is no guarantee of future results. Investment return and principal value will fluctuate. No adjustment has been made for any income taxes payable. Ending value assumes the reinvestment of all dividends and capital gains distributions.*

# Systematic Withdrawal Plans

.... A sound strategy for "inflation - proofing" your retirement income

	Month Ending	Amount Invested	Annual Withdrawal	Divided Income	Capital Gains	Market Value
Hypothetical Illustration of a Systematic Withdrawal Plan from a Composite of All Balanced Funds*	12/84	\$100,000	- - - - -	- - - - -	- - - - -	\$97,933
	12/85	0	\$9,000	\$6,072	\$2,521	114,505
	12/86	0	9,000	5,645	11,442	124,576
	12/87	0	9,000	6,948	11,998	119,170
	12/88	0	9,000	6,746	1,447	123,659
Initial Investment: \$100,000	12/89	0	9,000	6,995	3,788	138,657
Sales Charge: 2.07%	12/90	0	9,000	6,782	1,559	128,492
Initial Net Asset Value: \$97,933	12/91	0	9,000	6,429	3,690	150,664
	12/92	0	9,000	5,915	3,949	153,114
	12/93	0	9,000	5,397	5,682	162,615
	12/94	0	9,000	5,579	4,273	149,420
	Totals	\$100,000	\$90,000	\$62,510	\$50,348	\$149,420

# Mutual Funds In Summary

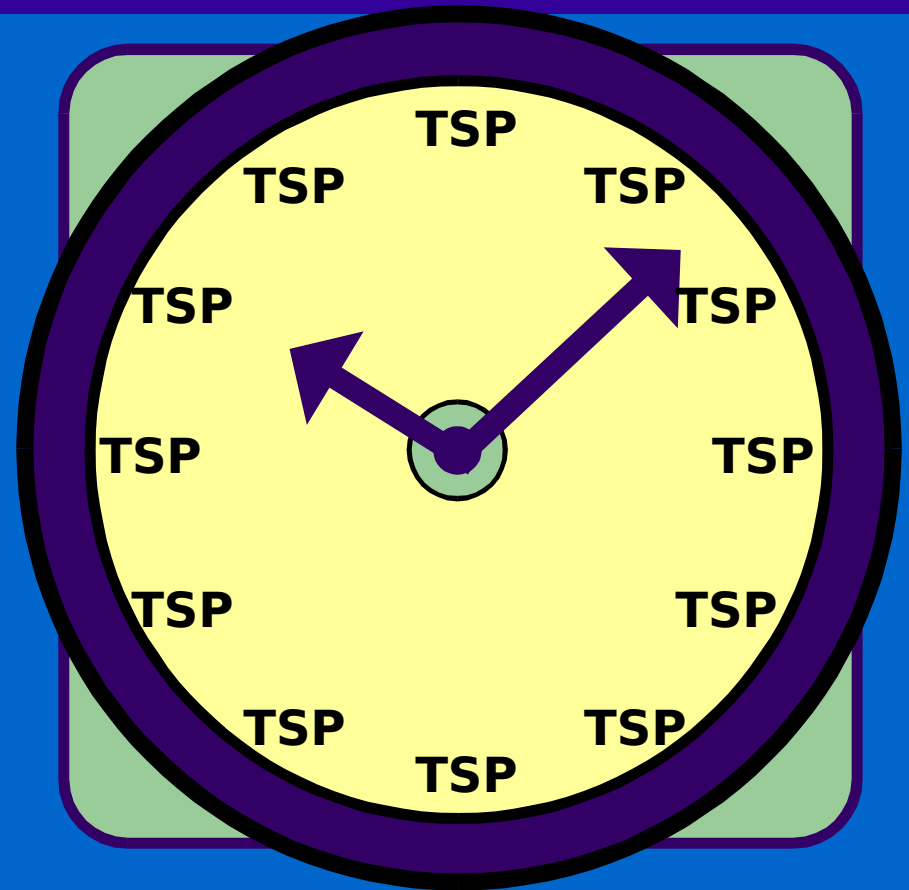
- *Professional Selection*
- *Diversification*
- *Liquidity*
- *Choice of Objectives*
- *Systematic Withdrawal Plan*
- *Ease of Record Keeping*

- 
- 
- 

# Time for a Quiz

# What Time Is It?

It's  
**TSP**  
Time!





# The Value of TSP

CSRS		FERS
\$50,000	Annual Income	\$50,000
\$3,500	TSP Contribution	\$6,000
	7%                      12%	
<hr/> \$46,500	Taxable Income	<hr/> \$44,000
\$0	Government Match	\$2,500
<hr/> \$3,500	Total TSP Savings	<hr/> \$8,500

Growing tax deferred  
No 1099s

# CSRS Pension

- *Defined BENEFIT Plan*
- *Based on years of service and average of top three earning years*
- *For example:*
  - *Employed 32 years*
  - *High three years: \$72,000; \$69,000, \$68,000*
  - *Retirement Income = 60% of \$69,666*

# FERS Pension

- *Defined CONTRIBUTION/Defined BENEFIT Plan*
- *Based on 3 parts:*

- *TSP*

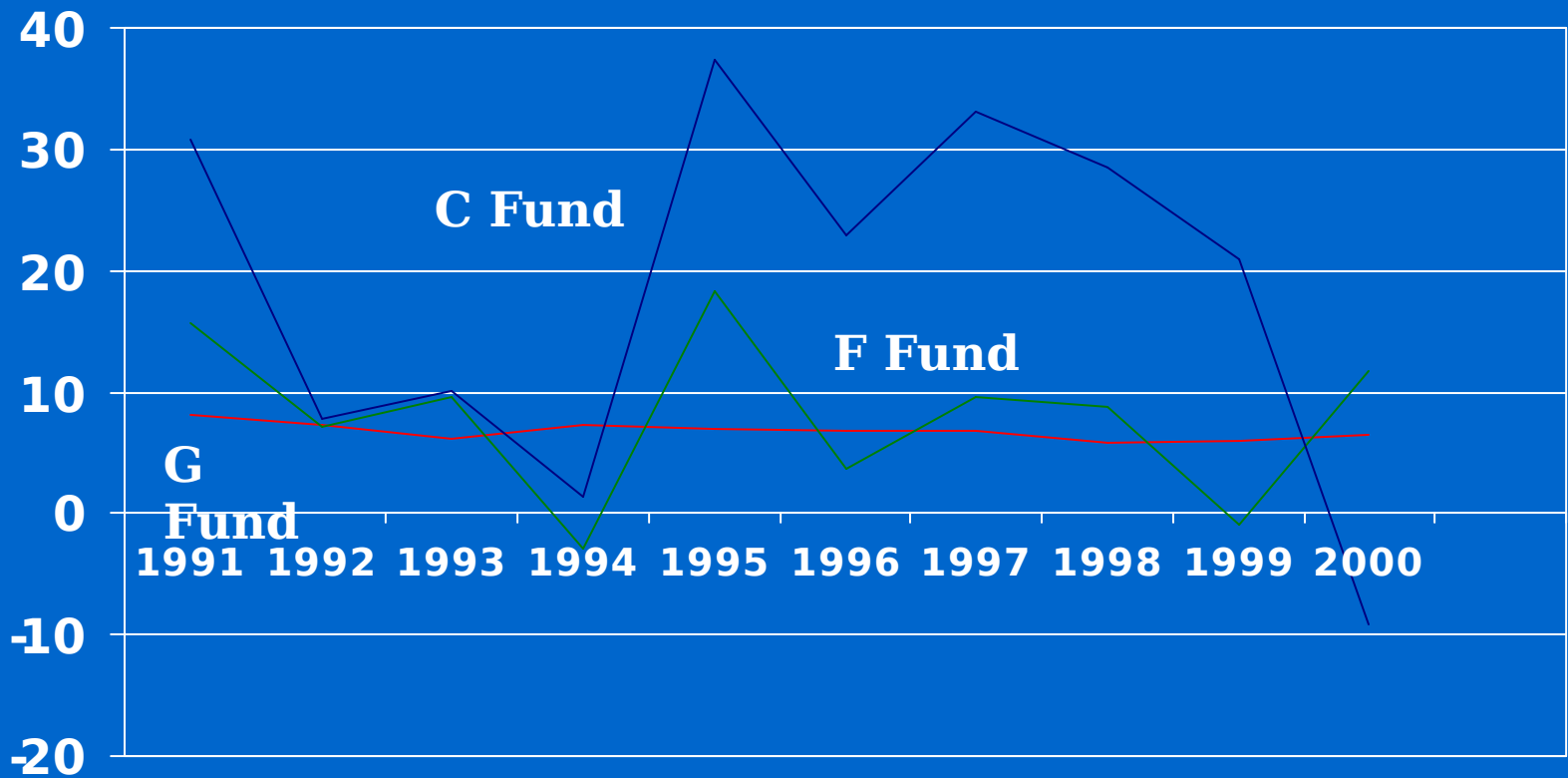
- *FERS Portion*
- *Social Security Income*

# TSP Withdrawal Options

- *Leave money in the account  
(pending later withdrawal)*
- *Receive the whole account in a single payment  
(100% taxable at that time)*
- *Receive the account in monthly payments  
(providing how much control?)*
- *Have TSP purchase an annuity for you  
(guaranteed for the rest of your life, but with no growth)*
- *Rollover the money into another retirement plan  
(IRA rollover)*

# Rates of Return

1991-2000 C, F and G Fund Annual Returns



# 10- Year Summary of TSP Annual Returns

<i><b>Year</b></i>	<i><b>G Fund</b></i>	<i><b>F Fund</b></i>	<i><b>C Fund</b></i>
	<b>%</b>	<b>%</b>	<b>%</b>
1991	8.15	15.75	30.77
1992	7.23	7.20	7.70
1993	6.14	9.52	10.13
1994	7.22	-2.96	1.33
1995	7.03	18.31	37.41
1996	6.76	3.66	22.85
1997	6.77	9.6	33.17
1998	5.74	8.70	28.44
1999	5.99	-0.85	20.95
2000	6.42	11.67	-9.14
<b>10-Year Compound</b>	6.74	7.87	17.43

# The Rule of 72

*How long will it take to double your money?*

$72 \div \text{rate of return}$	=	Number of years to double value
---------------------------------	---	---------------------------------

$72 \div 18\%$	=	4 years
----------------	---	---------

$72 \div 7.2\%$	=	10 years
-----------------	---	----------

# The Rule of 72 in Action

C Fund	Year	G fund
\$10,000	2000	\$10,000
\$20,000	2004	
\$40,000	2008	
\$60,000	2010	\$20,000

But, is this YOUR reality?



# What are “require minimum distributions”?

*The minimum distribution requirement applies only to participants who have separated from Federal service. It does not apply to active employees, regardless of their age. If you have separated from service, the IRS requires that you receive a certain portion of your account balance beginning with the year in which you become 70 ½. This portion, known as a “required minimum distribution,” is based on life expectancy.*

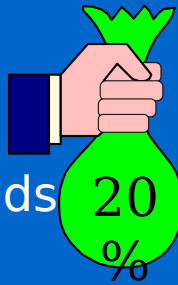
# Rollovers: Wrong Way vs. Right Way

Employee Receives Distribution

Distribution is Sent Directly to Trustee



Lump Sum Distribution from TSP

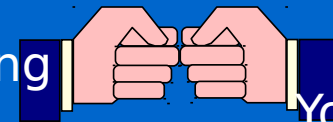


IRS withholds



You receive

NO withholding

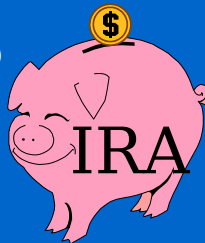


You don't touch \$

Trustee receives



You elect to  
rollover  
distribution



Unless you  
contribute the  
additional 20%,  
taxes must be paid  
on the amount  
withheld



Entire distribution is  
available for  
investing in IRA or  
other retirement  
plan

# Roth IRA

- *Contributions are not deductible*
- *Tax-free distributions*
  - *Five-years into age 59 ½ before taking distributions*
- *Contributions possible after age 70 ½ (earnings)*
- *Generous threshold levels for qualification*
  - *\$95,000 - Single*
  - *\$150,000 - Joint*
- *Rollover of existing traditional IRAs permitted*
  - *\$100,000 income threshold*
- *Assets go to beneficiaries income tax free*
  - *Not Federal Estate Tax free*
  - *Not State Inheritance Tax free*

# Tax - Deferred Fixed Annuities

- *Principal guaranteed by major insurance companies*
- *Guaranteed minimum interest rate*
- *Current, or excess interest based on index, or paid at discretion of board of directors*
- *All interest accumulates tax - deferred until withdrawn (no 1099s)*
- *Flexible withdrawal options*
- *Can provide retirement income that cannot be outlived*

# Variable Annuities

A diagram of a white umbrella with a black outline, centered on a blue background. The text 'Variable Annuities' is written in blue across the canopy. Below the canopy, the umbrella's shaft and handle are visible. The handle is a thick black J-shape. The shaft is a thin black line. Below the canopy, the text is organized into three columns: 'Money Market Funds' on the left, 'Bond Funds' in the center, and 'Stock Funds' on the right. Under 'Bond Funds' and 'Stock Funds', there are lists of specific fund types.

Money Market  
Funds

Bond Funds

Stock Funds

US Government Securities Funds

Balanced Funds

Municipal Bond Funds

Equity Income Funds

Corporate Bond Funds

Growth and Income Funds

High-yield Corporate Bond Funds

Growth Funds

Global Income Funds

Aggressive Growth Funds

International Equity Funds

Global Equity Funds

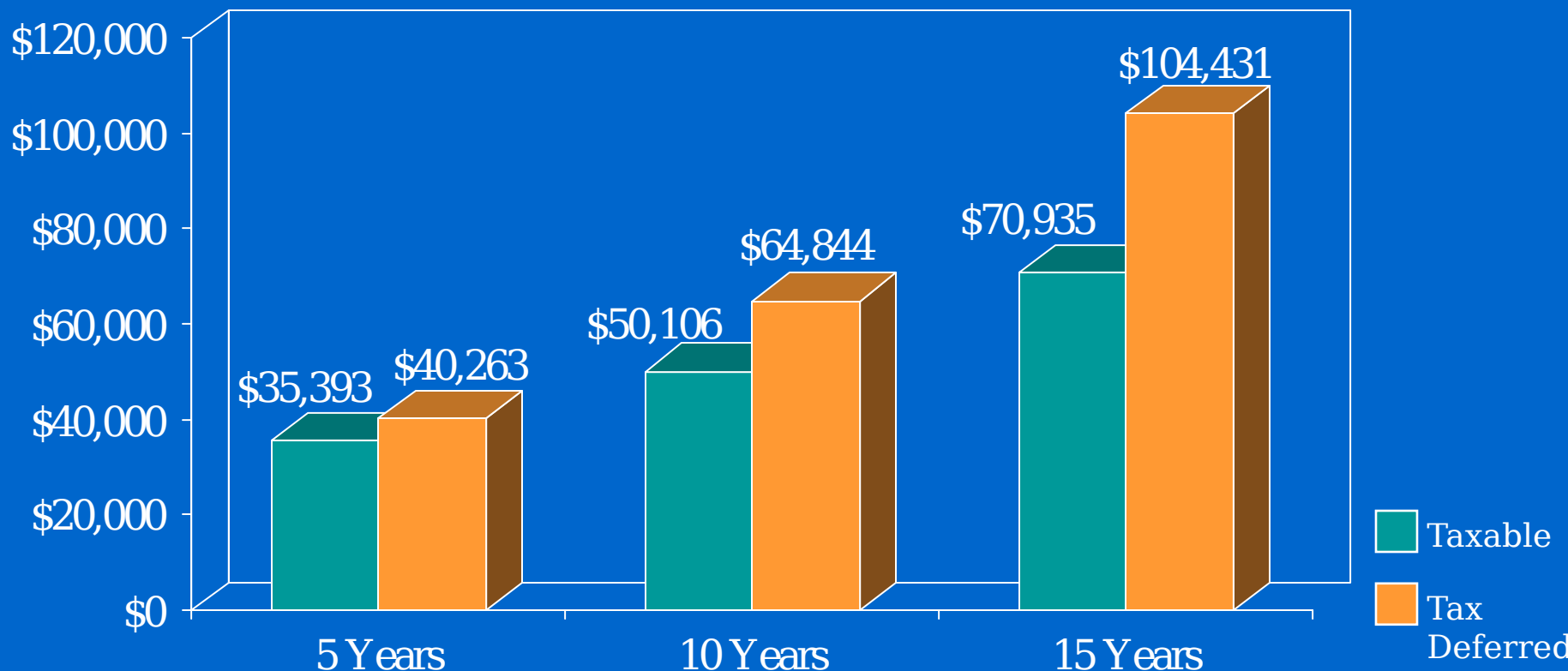
Index Funds

Sector Funds

# Variable Annuity Investing

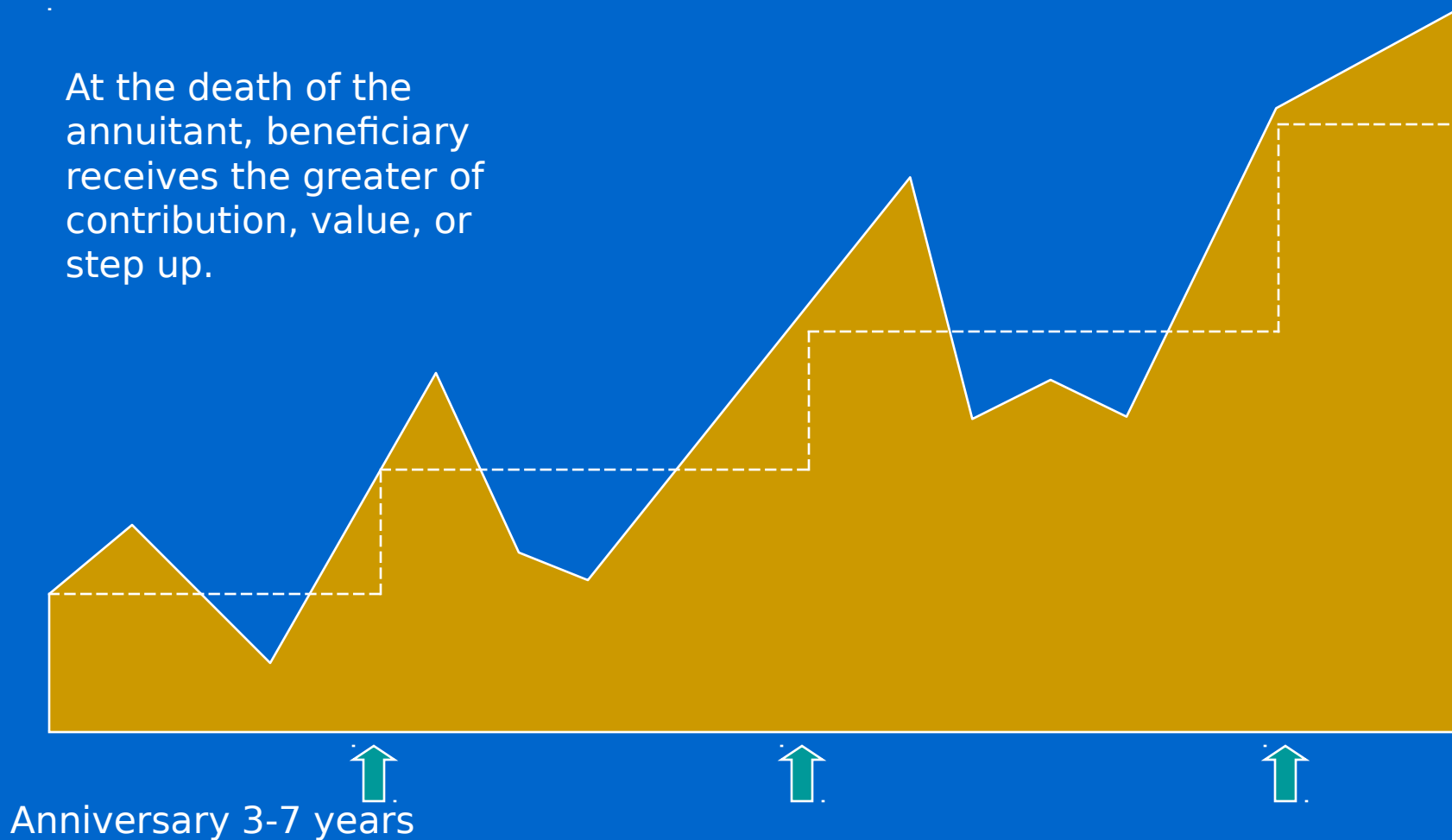
## Tax deferral advantages

Investment: \$25,000  
Tax Bracket: 28%  
Rate of Return: 10%



# Guaranteed Death Benefit

At the death of the annuitant, beneficiary receives the greater of contribution, value, or step up.



# Variable Annuity Investing

- *100% of your money goes to work*
- *All earnings (dividends, capital gains, interest) accumulate on a tax-deferred basis (no 1099s) until you withdraw them*
- *You can change investment option(s) with no tax consequences*
- *Proceeds are payable to a named beneficiary so you avoid probate*
- *Guaranteed death benefit protects the principal for an investor's heirs or estate*



# Types of Life Insurance

*The two categories of life insurance are:*

- *TERM insurance, providing only a death benefit*
- *CASH VALUE insurance, providing living benefits in addition to a death benefit*

# Term Insurance

- *Provides benefits only on the death of the insured*
- *Costs little to start, with premiums increasing over time*
- *Can be purchased for a specific period of time*
- *FEGLI is a group term life insurance product*

# FEGLI

## *Life Insurance options at retirement*

- 1. 75% Reduction*
- 2. 50% Reduction*
- 3. No Reduction*

# Cash Value Insurance

- *Provides benefits during the lifetime of the insured*
- *Creates an estate in the event of the insured's death*
- *Provides liquid funds for emergencies or income supplement*

# Types of Cash Value Insurance

- *WHOLE LIFE* (traditional cash value life insurance) *provides:*
  - *guaranteed death benefits*
  - *cash values*
  - *dividends (in some cases)*
- *WHOLE LIFE can be an efficient way to acquire insurance on a long-term basis. Its cash values are created through investment by the insurance company in long - term portfolios.*

# Types of Cash Value Insurance

- *UNIVERSAL LIFE is based on a combination of low-cost term insurance with a tax-sheltered annuity earning variable rates of interest.*
- *VARIABLE LIFE has a death benefit created by term insurance and a cash value side portfolio where the death benefit and the cash value can be increased by the performance of three portfolios:*
  - *money market portfolios*
  - *corporate bond portfolios*
  - *common stock portfolios*

# Variable Universal Life

## Premium Flexibility

Level

Stop and Go

Lump Sum Additions

Single Premium

Limited Pay Period

## Investment Flexibility

Common Stock

Balanced

Bond

Money Market

Guaranteed Account

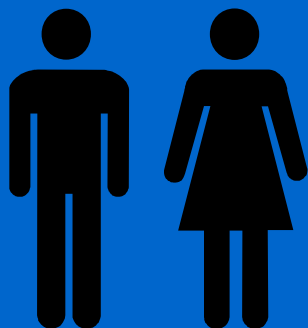
Many Investment Options

# What Should I Do With My Life Insurance?

- *At retirement, people question the need for life insurance because:*
  - *The children are grown.*
  - *Most (or all) of the mortgage is paid off.*
  - *They have other assets.*
- *But why do we buy insurance?*
  - *To cover the loss of the policyholder's earning power*
  - *To meet increased expenses of the family*
  - *To pay death related expenses*
  - *To create an estate*
  - *To facilitate **pension maximization***



# Pension Maximization

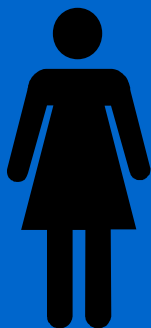


## Standard Option:

- Single life pension of \$3000
- Survivor option -10%
- Monthly income is \$2700

## Enhanced Benefit w/Insurance:

- Single life pension of \$3000
- Survivor option -10%
- Monthly income is \$2700



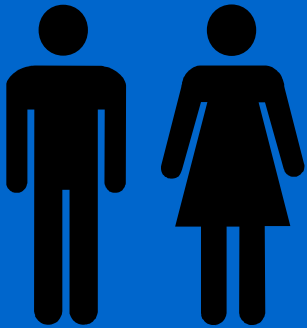
## Surviving Spouse

- After death of federal employee, spouse receives \$1650/month (55% of single life pension)
- During the lifetime of the survivor, monthly income is \$1650
- Loss of \$1050 monthly
- Loss of \$12,600 annually

## Surviving Spouse

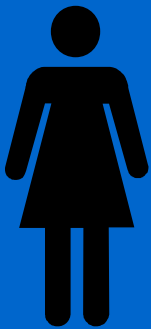
- After death of federal employee, spouse receives \$1650/month (55% of single life pension)
- Life insurance benefits of \$150,000 invested at 8% creating \$1000 a month benefit
- During the lifetime of the survivor, monthly income is \$2650
- Loss of \$50 monthly
- Loss of \$600 annually

# Pension Maximization



## Hybrid with Life Insurance:

- Single life pension of \$3000
- Survivor option -3.5%
- Monthly income is \$2900



## Surviving Spouse

- After death of federal employee, spouse receives \$1155/month (38% of single life pension)
- Life insurance benefits of \$150,000 invested at 8% creating \$1000 a month benefit
- During the lifetime of the survivor, monthly income is \$2155
- Gain of \$505 monthly (over standard)
- Gain of \$6600 annually (over standard)

# Reasons to Keep Life Insurance After Retiring

- *Expenses that occur at death*
- *Funeral costs*
- *Estate settlement and administration costs*
- *Estate taxes*
- *Income taxes*
- *Debts and obligations*
- *Miscellaneous*

# Long - Term Disability

- *Disability is a greater risk in the years before retirement than is death. At age 52, a person is 2 1/2 times more like to be disabled than to die. By the age of 62, the risk is still two times greater.*
- *Disability is also the primary reason for real estate foreclosure in America. Government studies show that 48% of all foreclosures were the result of disability -- only 3% were the result of death.*

# Long - Term Care

- *Doctor and hospital bills are not the largest financial risk involved in long-term care. Rather, it is the high cost of long-term convalescent health care.*
- *An AARP survey indicates that 79% of people who expect to need nursing home care believe (incorrectly) that Medicare would pick up the cost.*

# What is Long - Term Care?

- *Today, long-term care refers not only to traditional nursing home care, but to a broad range of services:*
  - *Home care*
  - *Rehabilitation services*
  - *Personal care*
  - *Social services*
  - *Assisted living*
  - *Adult day care*

# The Cost of Long Term Care?

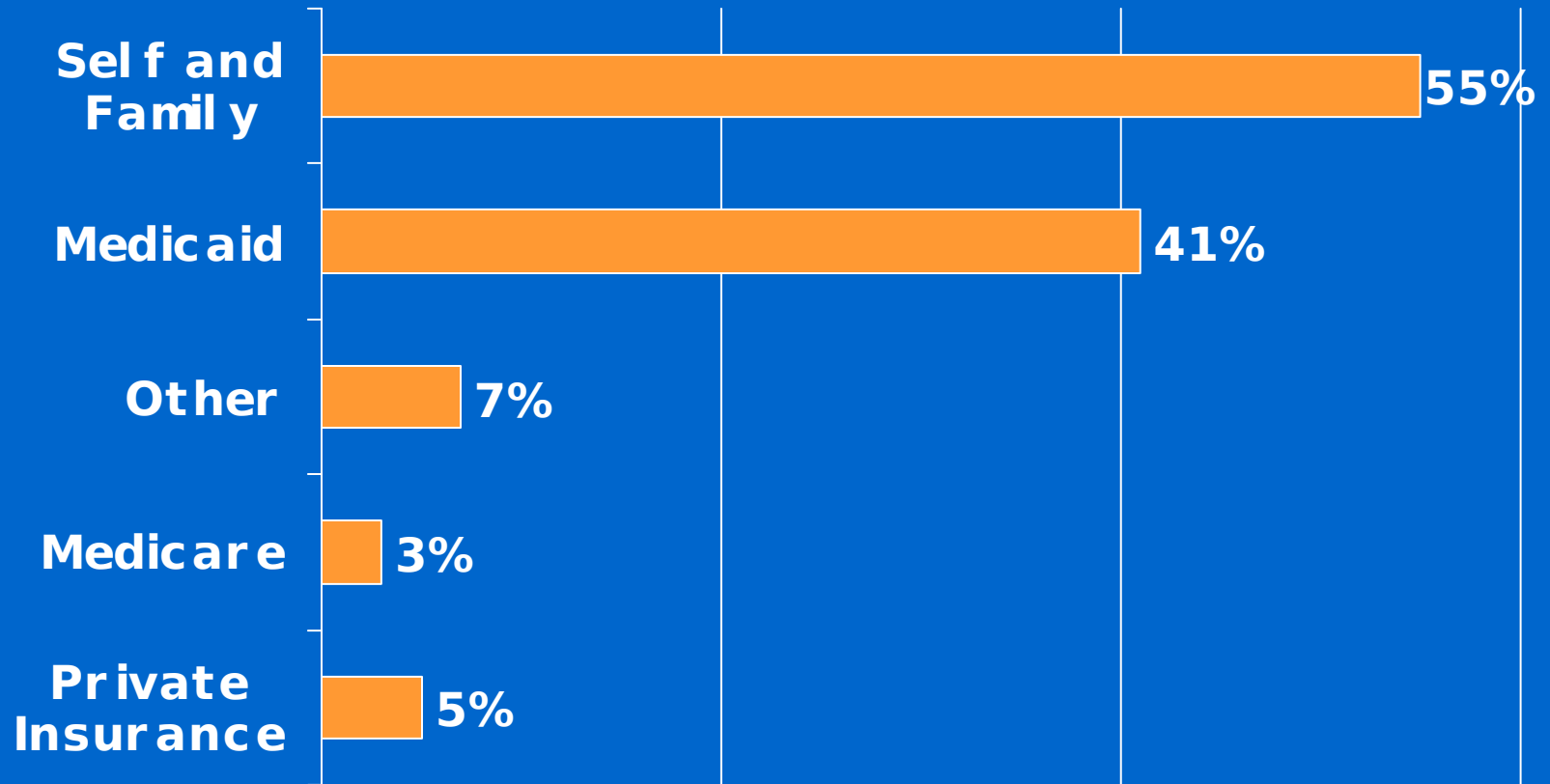
- *The high cost of long-term care is the greatest threat to the financial security of most Americans today.*
  - *Average nursing home cost - \$40,000-\$80,000 annually*
  - *Median cost - \$6000 a month*

# Why Be Concerned?

- *6 of 7 families would be devastated by the cost of long-term care*
- *2 of 3 single persons and 1 of 3 married persons exhaust their funds after 13 weeks in a nursing home*
- *More than 1/2 of the women and 1/3 of the men turning 65 this year will spend time in a nursing home*
- *Life expectancies continue to increase*
- *Medicare and Medicaid are almost broke*



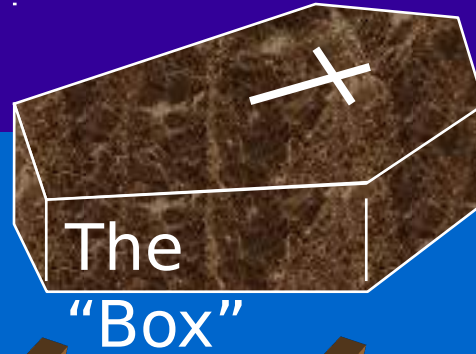
# Who Pays for Long Term Care Services?



# Risk Probabilities

- *Major fire* 1 in 1,200
- *Major auto accident* 1 in 2,400
- *Major hospitalization* 1 in 15
- *LTC (ages 65 - 80)* 1 in 4
- *LTC (ages 80+)* 1 in 2

# The Ladder of Life



LTC

Retirement

College

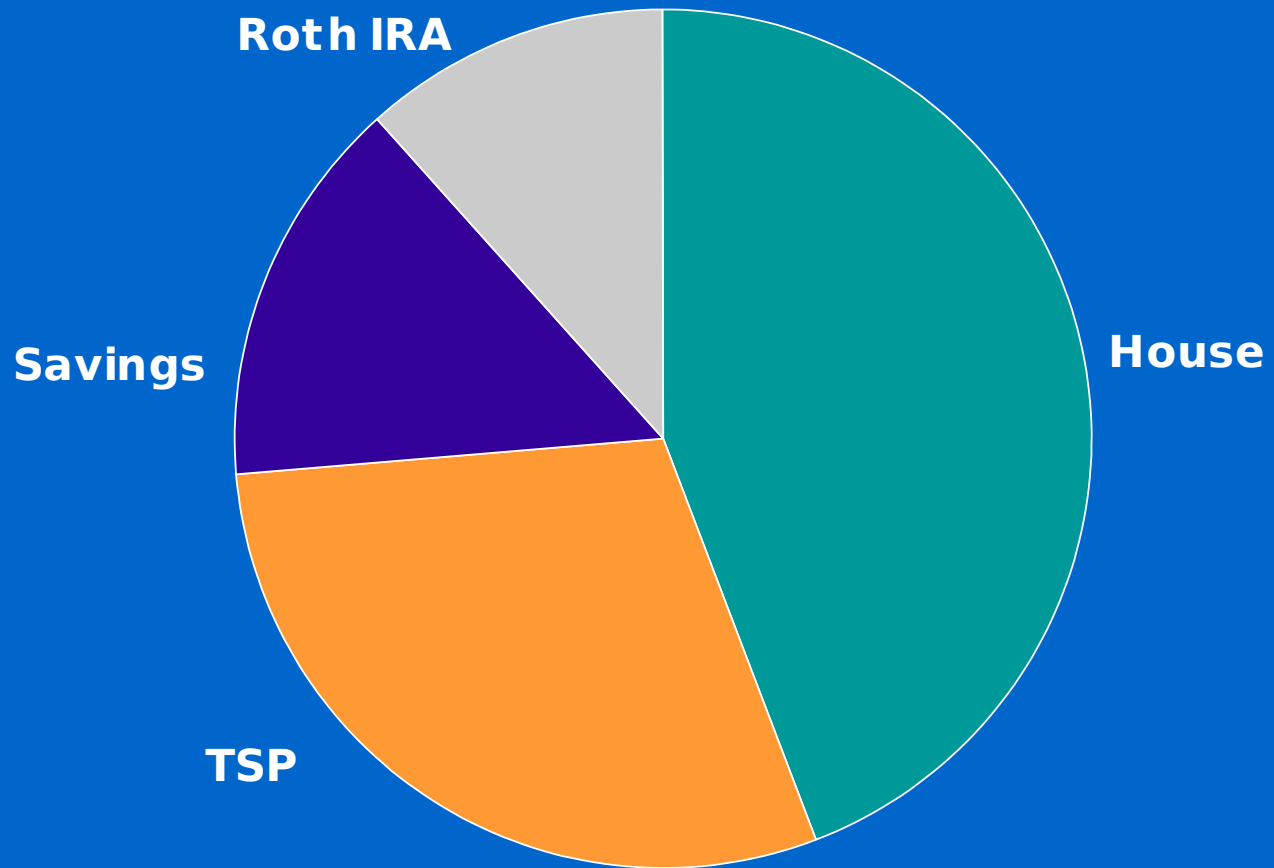
Kids

House

Marriage

Car

# What is Your Net Worth?



- 
- 
- 

# Winners Keep Score

*Create your net worth statement every year!*

# What are your goals?

- *House* \$250,000
- *TSP - CSRS* \$100,000
- *TSP - FERS* \$400,000
- *Savings/Investments* \$100,000
- *Roth IRA* \$40,000

- 
- 
- 

If your net worth is more than \$150,000, it it worth protecting?

# Long - Term Health Care Insurance

*The Affordable Solution*

- *Helps preserve independence and needed assets*
- *Ensures financial security and independence for spouse*
- *Financial hardship does not delay needed care*
- *Benefits are readily available when needed*
- *Provides capital that allows choice in long-term care facilities*
- *Provides opportunity to transfer assets to children or otherwise separate them from the estate*



# Long-Term Health Care Insurance Plans

- *100% Home Care and Nursing Home Care*
- *Daily Benefit \$120.00*
- *Waiting Period (deductible)*
  - *0, 20, 60, 90 days*
- *COLA*
  - *None, simple, compound 5%*
- *Benefit Period*
  - *2 years, 5 years, unlimited*

# Long-Term Health Care Questions

- *Where will the money to pay for a nursing home stay come from?*
- *How long will that money last?*
- *Can family be counted on for financial help?*
- *Will the government design a plan that is right for your needs?*
- ***Is it sensible to use interest to pay for long term care and ultimately protect assets?***

# Working After Retirement

- *Advantages of Continuing to Work*
  - *Socialization*
  - *Prevents boredom*
  - *Exposes you to a mixed age group*
  - *Reduces chance of overindulgence in alcohol*
  - *Gives you a reason to get up in the morning*
  - *May supplement your other income sources*
- *Disadvantages of Continuing to Work*
  - *May reduce leisure time activities*
  - *May reduce Social Security benefits*

# Why People FAIL to Capitalize on Their Retirement Years

- *Procrastination*
- *Unprepared for Social Charge*
- *Failure to Clearly Define Retirement Objectives*
- *Ignorance of What Money Must Do to Help Accomplish Those Objectives*
- *Failure to Understand and Apply Our Tax Laws*
- *Failure to Make the Best Use of Retirement Income Sources*
- *Failure to Prepare for the Unexpected*
- *Worrying About Who Gets What, When*
- *Failure to Develop a Winning Attitude*

- 
- 
- 

“If I could speak at one time to all Senior Americans, I’d tell them to forget their age and do exactly what they feel like doing. It all comes down to attitude. Excitement is what really keeps you going.”

– Bob Hope

# Are You Ready to Retire?

- *How's Your Health?*
- *Did You Prepare Financially?*
- *Do You Love Your Job?*
- *Is Your Spouse Ready?*
- *Have You Decided Where to Live?*
- *Do You Have Hobbies?*

# Pets Pay Healthy Dividends

- *Pets can help in treatment of heart disease, family stress, physical disability, and learning impairment*
- *Pet owners have lower blood pressure, blood fat levels, and cholesterol levels*
- *Pet owners make fewer visits to physicians than do people who don't own pets*

- 
- 
- 

*I used to think that money was the most important thing in life. Now that I am old, I know it is.*

– Oscar Wilde



# Estate Planning

While you are alive

- *Designates who will make financial decisions for you*
- *Designates who will make medical decisions for you*
- *Provides you with peace of mind*

# Estate Planning

After your death

- *Provides instructions for caring for your family's physical and financial needs*
- *Distributes your assets according to your desires*
  - *who gets what*
  - *how they will get it*
  - *when they will get it*
- *Reduces the cost of settling your estate*
- *Minimizes tax liability*
- *Allows you to leave a legacy behind*

# Cost of Dying Without Planning Your Estate

- *Court will determine who will administer your estate and care for your minor children*
- *Your children will be treated equally, even if they have different needs*
- *Remote relatives may receive assets you would prefer to leave to other people or organizations*
- *Your estate may wind up paying unnecessary taxes and expenses*
- *If your minor children receive assets, the court must appoint a guardian to manage those assets*

# Pennsylvania Intestacy

- *Spouse and children (of survivor)*
  - spouse: \$30,000 and 50% of balance
  - children: 50% of balance
- *Spouse only*  
*Spouse and children (not of survivor)*
  - spouse: \$50,000 and 50% of balance
  - parents: 50% of balance
  - if no parents: 100% to spouse
- *No spouse or children*
  - parents: 100%
  - if no parents: 100% to siblings

# New Jersey Intestacy

- *Spouse and children (of survivor)*
  - spouse: \$50,000 and 50% of balance
  - children: 50% of balance
- *Spouse only*
  - spouse: \$50,000 and 50% of balance
  - parents: 50% of balance
  - if no parents: 100% to spouse
- *No spouse or children*
  - parents: 100%
  - if no parents: 100% to siblings

# Maryland Intestacy

- *Spouse and children*
  - *spouse: \$15,000 and 50% of balance*
  - *children: 50% of balance*
- *Spouse only*
  - *spouse: \$15,000 and 50% of balance*
  - *parents: 50% of balance*
  - *if no parents: 50% to siblings*
- *No spouse or children*
  - *parents: 100%*
  - *if no parents: 100% to siblings*

# Pennsylvania Inheritance Tax

- *Spouse = exempt*
- *Lineal = 4.5%*
- *Others = 15%*

# New Jersey Inheritance Tax

- *Spouse = exempt*
- *Lineal = exempt*
- *Siblings = \$25,000 exempted*
  - up to \$1,000,000 = 11%*
  - more than \$1,000,000 = 16%*
- *Others = \$499 exempted*
  - up to \$700,000 = 15%*
  - more than \$700,000 = 16%*



# Maryland Inheritance Tax

- *1% for assets to children, spouse, parent, grandparent*
- *10% for assets to anyone else*
- *Properties passing to charity are exempt*
- *Properties passing by tenants by their entireties to surviving spouse are exempt*
- *Real properties and the first \$100,000 of personal property passing to the surviving spouse are exempt*

# How Do Your Heirs Receive Your Assets?

- *Probate*
- *Operation of law*
- *Trusts*

Estate and tax laws are clearly defined. Proper use of them may save you money. Improper use (or ignoring them) will waste money.

# Your Will

- *Identify the person who will handle your affairs*
- *Identify which assets go to which people or organizations*
- *Specify the terms under which the assets will be distributed*
- *Identify the person who will care for any minor children*
- *Take advantage of tax-saving strategies*

# When Should You Review Your Will?

- *Every few years*
- *If you move to another state*
- *If you change your marital status*
- *When your youngest child reaches adulthood*
- *If you want to change your executor*
- *If you want to change the distribution of your assets*
- *If laws that have an impact on your will change*
- *If your estate increases or decreases in value*

# Operation of the Law

Positioning assets in certain vehicles can avoid probate

- *Joint tenancy with the right of survivorship or tenancy by the entireties*
  - house
  - real estate or real properties
- *Designated beneficiaries*
  - life insurance
  - annuities
  - retirement plans (TSP, 401K, IRA, TSA)
  - payable on death accounts (POD)
  - Trusts



# Trusts

- *Box/corporation concept*
- *Living trusts created during life (inter vivos)*
  - *revocable*
  - *irrevocable*
- *Created at death, usually by a will (testamentary)*

# Parties to an Irrevocable Trust

- *Grantor (YOU)*
- *Trustee (appointed by YOU)*
- *Executor (appointed by YOU)*

# Advantages and Disadvantages of an Irrevocable Trust

- *Professional/corporate*
  - *Professional advice*
  - *Expertise*
  - *Experience*
  - *Unfamiliar with situation*
  - *Bureaucracy*
- *Family*
  - *Family interest*
  - *Familiar with situation*
  - *Lack of experience and expertise*



# Special Circumstances

- *In-laws*
- *Grandchildren*
- *Non citizen spouse*
- *Alzheimer's disease/  
beneficiary in nursing home*
- *Spendthrift beneficiaries*
- *Disability*
- *HIV/AIDS*
- *Drug addiction*
- *Alcoholism*
- *Second marriage*
- *Multiple sets of children*
- *Handicapped children*

# Guardianship

- *Save time*
- *Maintain control*
- *Prevent court battles*
- *Avoid family arguments*
- *Avoid publicity*

# Handicapped Children

- *Special lifetime trusts*
- *Income for welfare, maintenance, and education*
- *Child advocate*

# Second Marriage

- *Trusts for spouse*
- *Income to spouse*
- *Principal for support of spouse*
- *Remainder to children*

# Charitable Gifts

Sometimes it pays to give your money away

- *Tax deduction (year in which you made the gift)*
- *Conversion of low-yield, appreciated property to higher income producing assets (without capital gains tax)*
- *Possible production of lifetime income for you (and your spouse)*
- *Satisfaction of helping a worthwhile cause*

# Revocable Living Trusts

- *Will “substitute”*
- *Box concept*
- *Re-title assets*
- *Revocable during lifetime*
- *Continues on death*
- *Carries out your instructions*

# Parties to a Revocable Living Trust

- *Grantor (YOU)*
- *Trustee (YOU)*
- *Successor trustee (YOU appoint)*
  - *spouse or children*
  - *relative*
  - *professional*
- *Beneficiaries (YOU appoint)*
  - *spouse or children*
  - *relative*
  - *other trusts*

# Advantages and Disadvantages of a Revocable Living Trust

- *Avoids probate*
- *Multi-state administration*
- *Save on executor and legal fees*
- *Private*
- *Avoids expensive guardianship*
- *Management of assets during lifetime*
- *Ease in administration*
- *Carries out your instructions*
- *Requires time and expense to establish*
- *Requires time and effort to fund (transfer assets)*
- *Does not reduce estate tax liabilities*
- *Annual tax filing*
- *Psychological impact of giving up ownership of your assets*



# Planning for Incapacity

- *Durable power of attorney*
  - *Financial Matters*
- *Health care power of attorney*
  - *Health Matters*
- *Living wills*
  - *Life Choices*
- *Organ donor forms*
  - *Personal Decision*

# Taxes and Your Estate

- *Income taxes*
  - *Income earned during the year you die*
  - *Income earned by your estate*
  - *Untaxed portion of traditional IRA, tax-deferred annuities, retirement plans*
- *Capital gains*
  - *Stepped up basis*
- *Unified gift and estate taxes*
  - *annual gifts of \$11,000 are exempt*
  - *charitable gifts are exempt*
  - *gifts to spouse are exempt*

# Estate Expenses

Proper planning can help you avoid most of these

- *Executor*
  - *First \$200,000: 5%*
  - *Next \$800,000: 3.5%*
  - *Balance: 2%*
- *Trustee*
  - *1% (then declining)*
- *Probate*
  - *3% to 8%*
- *Miscellaneous fees*
  - *2% to 5%*
- *Income taxes*
- *Appraisal fees*

# Estate Expense Example

- *\$200,000 estate*
  - *\$10,000 executor fees*
  - *\$2,000 trustee fees*
  - *\$10,000 probate fees*
  - *\$5,000 miscellaneous fees*
  - *\$33,000 income taxes*
  - *\$3,000 appraisal fees*
- *\$137,000 NET estate (33% shrinkage)*

# Considerations in Estate Planning

- *Marital deduction*
  - *no tax on amounts transferred to your spouse*
- *Non-citizen spouses*
  - *not eligible for marital deduction*
- *2002-2003 Federal Estate Tax Exemption:*  
*Up to \$1,000,000*
- *\$11,000 annual gift exclusion*

# Suggestions for Estate Planning

- *Inventory your belongings*
- *Decide which items you want to go to whom*
- *Consider all family members*
- *Keep your will current*
- *Consider your entire estate when planning*
- *Use joint ownership arrangements with care*
- *Charitable bequests can reduce your taxes*
- *Value your property*
- *Take advantage of tax reduction strategies*
- *Be sure your estate has enough assets to cover taxes and distribution*
- *Keep in mind that your probate estate may pay the tax on assets that bypass probate*
- *Get professional advice - don't try to do it yourself*

# The Estates of the Rich and Famous

	<i>Gross Estate</i>	<i>Settlement</i>
• <i>W.C. Fields</i>	<i>\$744,357</i>	<i>32%</i>
• <i>Marilyn Monroe</i>	<i>\$819,680</i>	<i>37%</i>
• <i>Alwin Ernst</i>	<i>\$12,642,431</i>	<i>56%</i>
• <i>J. D. Rockefeller, Sr.</i>	<i>\$26,905,182</i>	<i>64%</i>
• <i>Elvis Presley</i>	<i>\$10,165,434</i>	<i>73%</i>
• <i>Howard Gould</i>	<i>\$67,535,386</i>	<i>78%</i>

# Preserving Your Estate

- *Eliminate or minimize*
  - *Death taxes (state and federal)*
  - *Fees (legal, accounting, and appraisal)*
- *Make sure there is enough cash to pay taxes so assets do not have to be sold*
- *Transfer assets properly and efficiently*
- *Make a plan*



# The Retirement Process

- *Decide on a retirement date*
- *Make an appointment with the agency personnel office to do the following.*
  - *Review the Official Personnel Folder (OPF) to ensure that all records are complete and accurate*
  - *Make sure that all civilian and military service has been verified*
  - *Review forms to ensure that health benefits coverage and life insurance coverage has been verified*
  - *Review all designation of beneficiary forms to ensure that the forms are current*
  - *Compute the estimated retirement annuity*

# Retirement: how do I make it work for me?

- P** *Start your PLANNING immediately, no matter when you are going to actually retire. Set a date in your mind.*
- R** *RESEARCH your options. Don't rely on what friends, coworkers, or relatives tell you. Check with experts in their relative fields.*
- O** *Continually ORGANIZE and maintain current records of your important papers.*
- A** *ACCEPT new information. Develop a new appreciation for information that might be beneficial to you.*
- C** *Communicate on an on-going basis with your spouse, family, or anyone affected by your retirement.*
- T** *Maximize your THRIFT SAVINGS PLAN contributions as soon as possible.*
- I** *INQUIRE whenever you hear about changes affecting your retirement.*
- V** *VISUALIZE your retirement goals often.*
- E** *ESTABLISH a plan and update it yearly.*

# • • Now that I have retired, what do I do?

- *Travel*
- *Elderhostel*
- *Volunteer*

# What is elderhostel?

*Elderhostel is America's first and the world's largest educational travel organization for adults 55 and over.*

## ***Adventures in Lifelong Learning***

*We are a not-for-profit organization that provides exceptional learning adventures to nearly 250,000 older adults each year. Elderhostel offers over 11,000 programs a year in more than 100 countries.*

***Elderhostel.org***

# How Can You Preserve Your Assets?

- *Educate yourself*
- *Use professional services*
- *Review your situation*
- *Explore your options*
- *Start now*

- 
- 
- 

*Governments do the right thing,  
after they've exhausted all other  
avenues.*

– *Anonymous*